

## RATING REPORT

### Sindh Modaraba

**REPORT DATE:**

November 13, 2024

**RATING ANALYSTS:**

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#### RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A+	A1	A+	A1
Outlook/Rating Watch	Stable		Stable	
Rating Date	November 13, 2024		September 6, 2023	
Rating Action	Reaffirmed		Reaffirmed	

#### MODARABA INFORMATION

Incorporated in 2015	<b>External auditors:</b> Baker Tilly Mehmood Idrees Qamar Chartered Accountants
Public Listed Modaraba	<b>Chairman:</b> Mr. Waseem Mehdi Syed
<b>Key Certificate holders (with stake 5% or more):</b> Sindh Modaraba Management Limited - 94.36%	<b>Chief Executive Officer:</b> Mr. Abdul Rauf Chandio

#### APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Non-banking Financial Companies

<https://docs.vis.com.pk/Methodologies%202024/NBFCs202003.pdf>

#### APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

**Sindh Modaraba**

**OVERVIEW OF THE INSTITUTION**

*Sindh Modaraba (SM) has been incorporated under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980. The Modaraba started its operations in 2015 and is managed by Sindh Modaraba Management Limited (SMML).*

*Profile of Chairman Mr. Mehdi is currently serving as the Chairman and Independent Director of SM. Mr. Mehdi has over 40 years of experience within financial sector. He is also Independent Director of Bank Makramah Limited. Mr. Mehdi holds Master Degree from Karachi University and Diploma in Banking (DAIBP from) Institute of Banking in Pakistan.*

*Profile of CEO Mr. Abdul Rauf Chandio joined Sindh Modaraba Management Limited (SMML) as Chief Executive Officer on 10th July 2024. He holds Master's degree and possesses more than 32 years of diversified corporate banking experience. Prior to joining, he served Sindh Bank limited as SEVP, Group Business Head for over 09 years. He also remained the Director on the Board of Sindh Micro Finance Bank. He was also associated with Summit Bank for 06 years, National*

**RATING RATIONALE**

The ratings assigned to Sindh Modaraba (‘SM’ or the ‘Modaraba’) reflect strong sponsor profile of the Government of Sindh (GoS), which holds a 94.3% stake in SM through Sindh Modaraba Management Limited (SMML). These ratings also consider financial stability and management expertise of SMML. SM is a publicly listed Modaraba on the Pakistan Stock Exchange (PSX), providing Shariah-compliant Islamic financing to its clients. The Modaraba operates from its head office in Karachi, with a branch in Lahore.

The ratings take into account the recent improvements in profitability metrics, aligned with rise in interest rates during the past period. Additionally, the ratings are supported by anticipated growth in the financing portfolio, supported by a favorable economic environment, which is expected to stimulate lending and financing activities. However, the assigned rating will remain contingent upon SM’s ability to sustain profitability in a low-interest-rate environment while maintaining asset quality. While the Modaraba’s liquidity and capitalization profiles remain sound, SM plans to divest from short-term investments due to declining interest rates, which will impact its liquidity going forward. In FY24, changes included onboarding of a head of marketing to drive growth, technological advancements to streamline operations, and the re-election of Board members, The impact of these changes on overall operations will be a key factor in future ratings considerations

**Key Rating Drivers**

**Sponsor support through majority ownership of Government of Sindh (GoS) remains a key rating driver.**

Assigned ratings derive comfort from strong sponsor support on both technical and financial front. The ownership of SM, as rests with GoS; the same holds 94.3% stake in SM through SMML. On the other hand, the local public owns 5.7% certificates as end-FY24.

**Decline in financing portfolio**

Gross financing portfolio of SM depicted a declining trajectory during the outgoing year; the same was recorded lower at Rs. 1.1b (FY23: 1.3b) whereas the net financing portfolio was reduced to Rs. 795m (FY23: Rs. 919m) at end-FY24; the same was an outcome of cautious strategy by the management amid high markup rate scenario along with subdued demand by the SMEs (primary target market of SM). During the outgoing year, SM’s major sectoral exposure was in sectors such as sugar (12.2%), construction (12.5%), chemical & allied (12.3%) and health (18.7%) and the excess liquidity was channelized towards investment portfolio for optimal returns within acceptable risk thresholds.

Going forward, given the declining trend in markup rates, SM plans to expand its gross portfolio by increasing disbursements to about Rs. 500-600m (FY24: 273m; FY23: 245m) in FY25 thereby enhancing gross financing portfolio to around Rs. 1.3-1.4b by end-FY25. The management intends to target the agriculture, automobile (tractors) and pharmaceutical sectors. The Modaraba has an adequate client assessment policy to mitigate risks associated with higher loaning.

**Reduction in Non-Performing Loans**

*Development Finance Corporation for 13 years & United Bank Limited for 05 years.*

The Modaraba made recoveries during the FY24, as evidenced by reduction in NPLs to Rs. 99m (FY23: Rs. 133m). Consequently, gross and net infection were recorded lower at 8.8% (FY23: 10.4%) and 4.3% (FY23: 6.3%) respectively. As per the management, NPLs are expected to decrease further as more recoveries are expected. Going forward, maintenance of asset quality will remain critical amid expanding financing portfolio.

### **Improvement in Profitability**

In FY24, the Modaraba saw an increase in income from Diminishing Musharakah (DM), reaching Rs. 198m (FY23: Rs. 162m). Given the higher policy rates and increased short-term investments of Rs. 950m (FY23: Rs. 700m), led to a rise in total income to Rs. 407m (FY23: Rs. 280m). Administrative expenses remained range-bound throughout the year, while profit before the management fee rose to Rs. 346.3m (FY23: Rs. 219.4 million). After accounting for a management fee of 10% of profits and net taxation, the Modaraba's net income increased to Rs. 201.3m (FY23: Rs. 130.4m) in FY24.

### **Liquidity and Capitalization profile provides comfort.**

Liquidity profile draws comfort from an augmentation of short-term investment portfolio Rs. 950m (FY23: Rs. 700m; FY22: Rs. 320m) by end-FY24; the same constitute privately placed TDRs with a commercial bank. Going forward, the management plans to partially channelize liquid funds towards financing portfolio and TDRs are projected to decline to Rs. 400m by end-FY25. The Modaraba's capitalization profile remains supported by sponsor loan and support from GoS. Meanwhile, the management intends to leverage its balance sheet in due course as and when need arises.

### **Technological Initiatives to streamline operations**

SM is in negotiations with the vendors to upgrade its core software system; the same will aid in streamlining the operational activities of the Modaraba and will ensure that the future growth is not hampered by technological constraints. Additionally, social media presence is also being taken into consideration to raise awareness regarding the Modaraba's offerings and improve market penetration simultaneously.

### **Corporate Governance**

- **Election of board:** Board elections were held during the outgoing year; that resulted in appointment of Mr. Abdul Rauf Chandio as a non-executive director of SMML and CEO of SM, after the resignation of Mr. Ishfaq Ahmed; the Board also reconstituted the Board committees accordingly. Moreover, Mr. Ejaz Akhtar Ansari was appointed as an independent director and Mr. Fayaz Ahmed Jatoi as non-executive Director in place of Mr. Kazim Hussain Jatoi; the latter was appointed on account of transfer posting of Secretary Finance-GoS.
- **Appointment of Marketing Head:** To further improve client relationships and reach the disbursement targets; a new marketing head has been appointed and will join us in Dec 2024.
- In addition, liaison office in Islamabad, Hyderabad, Larkana and Sukkur is in pipeline for geographical expansion.

**Sindh Modaraba (SM)**
**Appendix I**

<b>FINANCIAL SUMMARY</b>				<i>(In millions)</i>
<b>BALANCE SHEET</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>
Ijarah Assets	5.0	-	-	-
Current portion-Diminishing Musharaka	367.3	338.1	369.6	324.2
Long term portion-Diminishing Musharaka	447.3	505.6	494.2	414.7
Total Financing portfolio	819.6	901.9	919.5	794.9
Short Term Investments	320.0	320.0	700.0	950.0
Cash and bank balances	475.5	494.2	182.1	245.5
Total current assets	1,200.4	1,174.0	1,280.8	1,516.5
Total Assets	1,657.2	1,684.6	1,778.2	1,938.2
Creditors, Accrued & Other Liabilities	26.4	33.3	44.4	61.5
Lease Key Money	5.0	-	-	-
Total liabilities	32.1	38.6	55.9	70.9
Paid up Capital	450.0	450.0	450.0	450.0
Long Term Loan from Sponsor	1,000.0	1,000.0	1,000.0	1,000.0
Equity including sponsor loan	1625.1	1645.9	1722.4	1938.2
<b>INCOME STATEMENT</b>				
Income from Diminishing Musharaka	79	94	162	198
Income from Ijarah financing	1	-	-	-
Income from Murabaha finance	-	-	1	9
Income from Bank deposits	44	47	45	46
Term Deposit Receipts	15	26	72	154
Operating Expenses	46	41	64	65
Other income	0	1	1	1
Profit/ (Loss) Before Tax	76	101	195	306
Profit/ (Loss) After Tax	76	66	130	201
<b>RATIO ANALYSIS</b>				
Current Ratio (x)	37.4	30.4	22.9	21.4
Gross Infection	10.2%	8.9%	10.4%	8.8%
Net infection	6.6%	4.4%	6.3%	4.3%
Provisioning coverage	37.2%	52.6%	41.7%	53.4%
Efficiency (%)	33.6%	24.5%	22.8%	15.9%
ROAA (%)	4.5%	4.0%	7.5%	10.8%
ROAE (%)	12.3%	10.4%	19.1%	25.3%

REGULATORY DISCLOSURES		Appendix II			
<b>Name of Rated Entity</b>	Sindh Modaraba				
<b>Sector</b>	Modaraba				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Ratings				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Outlook/Rating Watch</b>	<b>Rating Action</b>
	<b><u>RATING TYPE: ENTITY</u></b>				
	11/13/2024	A+	A1	Stable	Reaffirmed
	09/06/2023	A+	A1	Stable	Reaffirmed
	06/30/2022	A+	A1	Stable	Reaffirmed
	06/29/2021	A+	A1	Stable	Reaffirmed
	06/30/2020	A+	A1	Stable	Reaffirmed
	02/22/2019	A+	A1	Stable	Reaffirmed
	12/29/2017	A+	A1	Stable	Reaffirmed
01/16/2017	A+	A1	Stable	Initial	
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
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<b>Due Diligence Meetings Conducted</b>	<b>S. No</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>	
	1	Abdul Rauf Chandio	CEO	15 <sup>th</sup> October, 2024	
	2	Adnan Shakeel	CFO		
	3	Faraz-uz-Zafar	Head of Compliance		